

VZCZCXRO4775
PP RUEHAG RUEHROV RUEHSR
DE RUEHKB #0101/01 0371022
ZNY CCCCC ZZH
P 061022Z FEB 09
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC PRIORITY 0726
INFO RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES
RUEAIIA/CIA WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHDC
RHMFISS/CDR USEUCOM VAIHINGEN GE
RUEKDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
RHEHNSC/NSC WASHDC
RHEHAAA/WHITE HOUSE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000101

SIPDIS

E.O. 12958: DECL: 02/05/2019
TAGS: [PGOV](#) [PREL](#) [AJ](#) [ENRG](#)
SUBJECT: AZERBAIJAN HAS NO PLANS TO CUT 2009 OIL
PRODUCTION, DESPITE PRESIDENT'S COMMENTS

REF: BAKU 1195 (2008)

Classified By: Ambassador Anne Derse, reasons 1.4 (b,d)

11. (C) SUMMARY: Despite public comments by President Aliyev, the State Oil Company of Azerbaijan (SOCAR) has no intention to curtail 2009 oil production in an attempt to stabilize prices, and indeed, all indications are that Azerbaijan will seek to maximize its oil production in 2009. According to the GOAJ Foreign Minister, President Aliyev's comments were meant purely "rhetorically shore up" the price of oil. Should oil "production cuts" be announced in 2009, they would largely be a function of lower anticipated production from the ACG mega oil-field due to ongoing technical issues with the Central Azeri Platform. Current ACG production is approximately 750,000 bpd and climbing, with the goal being to reach 950,000 (again) before the year's end. END SUMMARY.

12. (C) BACKGROUND: On January 30 President Aliyev told the press in Switzerland (Davos) that Azerbaijan "would stick to a pledge to cut oil output by as much as 300,000 barrels per day (bpd) in an attempt with other oil producers to stabilize prices . . . we were planning to produce about 55 to 60 million tons (of oil) a year, and now the program is for 50 million tons this year." (NOTE: 50 million tons annually is approximately 375 million barrels annually, i.e. one million barrels a day; 60 million tons annually is equal to approximately 1.2 million barrels annually). President Aliyev's statement reflected December 18, 2008 OPEC Conference comments by Energy Minister Natiq Aliyev (reftel A) that Azerbaijan would cut 2009 production by 300,000 bpd in 2009 to 540,000 bpd.

13. (C) On February 5 EnergyOff met with a senior SOCAR executive directly involved with gas and oil marketing issues, asking him about the President's comments. While understandably unwilling to directly contradict President Aliyev's public statements, he said that President Aliyev has issued no instructions to either SOCAR or to the AIOC consortium (which operates the ACG offshore oil mega-field, which produces the vast majority of Azerbaijan's oil) to reduce production in 2009. In this regard, he also confirmed comments made previously in response to Energy Minister Aliyev's December comments, to the effect that for 2009, SOCAR is planning on:

- ACG oil production at around 750,000 bpd (NOTE: BP says closer to 700,000 bpd)
- SOCAR oil production at 180,000 bpd (to include joint ventures),
- Shah Deniz (condensate) production at 50,000 bpd.

¶4. (C) He added that BP, as the operator for the ACG offshore oil mega-field (the source of the vast majority of Azerbaijan's oil production), had been offering an estimate of 750,000 bpd for 2009 ACG production, this lowered number due exclusively to technical constraints surrounding the re-start of the field's Central Azeri Platform. SOCAR, representing the State, has been pressing the AIOC Consortium to revise this 2009 production estimate upwards, to 800,000 bpd. Using annual tonnage estimates, he said he expected in 2009 that SOCAR would produce 8.5 million tons (approximately 175,000) and ACG would produce 37 million tons (approximately 760,000 bpd), equaling 45.5 million tons, roughly equal to the President's pledge of 50 million tons production next year. Treading carefully, he mused that perhaps President Aliyev was seeking to make a virtue of necessity, by depicting Azerbaijan's estimates of decreased oil production in 2009 as a function of solidarity with other oil producers, as opposed to a function of technical constraints stemming from the September 2008 gas leak incident at Central Azeri platform, which caused, and is continuing to cause, substantial reductions in production.

¶5. (C) A senior energy executive from the AIOC Consortium, talking about President Aliyev's comments, was similarly dismissive, saying that the only pressure the Consortium was receiving from the GOAJ was to increase production and decrease flaring, adding, "I doubt there is an appetite to hold off anything that can be pumped out." Current ACG production is approximately 750,000 bpd and climbing, with the goal being to reach 950,000 (again) before the year's end.

BAKU 00000101 002 OF 002

¶6. (C) In a February 5 conversation with the Ambassador, Foreign Minister Mammadyarov said that President Aliyev, believing the market price for oil "is really between \$80-100," made his comments to help shore up price rhetorically. Mammadyarov added that a cut of 300,00 by Azerbaijan, even if it occurred, won't make much difference in global supply. The GOAJ does not want to join OPEC (nor the "Gas Opec" which Russia keeps pressing Azerbaijan to join, but Energy Minister Natiq Aliyev attends OPEC meetings as an observer.

¶7. (C) COMMENT: As expected, it seems that any "production cuts" announced for 2009 would merely be a function of lower anticipated production from the ACG mega oil-field due to ongoing technical issues with the Central Azeri Platform. Otherwise, in spite of President Aliyev's comments, the GOAJ will seek producing as much oil as it can in 2009. END COMMENT.
DERSE